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Best Practices for the Business Environment

Reengineering the Registration Process Lessons from El Salvador

This Best Practice was adapted from "Doing Business 2007: How to Reform Case Study: Starting a Business—El Salvador," prepared by Booz Allen Hamilton in cooperation with USAID for the World Bank Group's 2007 Doing Business Reformers Club Conference.

Executive Summary:

With strong executive support and local ownership, El Salvador slashed the days to Start a Business by more than 75 percent (89 days) over a period of three years. The mechanisms for this enhancement were ISO certification, establishing a one-stop window, and reducing other unnecessary requirements. El Salvador stands as an example that significant reforms need not require significant costs.

Introduction

The business registration process is the first bureaucratic hurdle in becoming an entrepreneur. It is essential, therefore, that this process be simple and inexpensive so that it is not a barrier to entry. In many developing nations, this process can be overwhelming. Although other Central America countries have made improvements to their business registration processes, the changes in El Salvador have been dramatic: Between 2004 and 2006, El Salvador cut the number of days to complete the registration process from 115 to 26 (see

reformed by making various parts of the administrative process more efficient, a path on which they continue. It should be emphasized that these very successful reforms have been relatively inexpensive demonstrating that significant reform need not be an expensive endeavor.

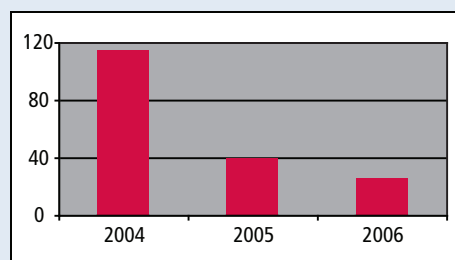
Context

As described in the 2006 World Bank *Doing Business* report, the process of starting a business in El Salvador involves numerous executive and municipal agencies and processes. The key administrative office in this process is the Commercial Registry, a component of the National Registry Center. It is responsible for many of the steps and documents in the registration process, and it accounted for approximately 90 of the 115 days needed to register before the reforms shortened this time period. Over the last several years, a confluence of events, both domestic and international, created an atmosphere conducive to reform.

International Pressure Mounts

Three international sources have been cited for facilitating registry reform: the negotiation and passage of the Central American Free Trade Agreement (CAFTA), the Millennium Challenge Account (MCA), and the Doing Business report. With respect to CAFTA, Salvadorans were sensitive to the need for regulatory reform, as

Figure 1: Days to Start a Business in El Salvador



Source: World Bank, *Doing Business Report*

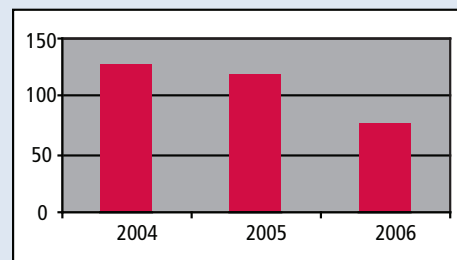
Figure 1) and cut the cost to register a business by approximately 50 percent (see Figure 2). This reform did not follow the typical course of internationally-led program assistance, legal and regulatory reforms, etc. Instead, El Salvador



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they were familiar with the Mexican experience in joining the North American Free Trade Agreement. They realized that these reforms would improve their competitive position in international trade. Second, for MCA eligibility, countries must demonstrate above-average performance in certain business process areas, including the number days needed to register a business. Both the MCA and in-country interviews confirm that Salvadoran efforts to reform the business registry were in part a response to the incentive of possible MCA funding. Last, a desire to improve results and standing with respect to the Doing Business report itself was cited as an impetus to seek change.

Figure 2: Cost to Start a Business in El Salvador (% of income per capita)



Source: World Bank, *Doing Business Report*

Political Will Strengthens Domestically

Domestically, a series of contemporaneous events provided further impetus for change. First, during the presidential election of 2003-2004, now-President Elías Antonio Saca included a campaign promise to launch a presidential program called "Programa Presidencial—El Salvador Eficiente" (Presidential Program—An Efficient El Salvador). The current head of the Technical Secretariat of the Presidency, Eduardo Zablah-Touché, assisted the president in creating the plan, which states that it is the government's goal to coordinate with the private sector to eliminate, simplify, and redesign bureaucratic processes that impede business. This promise became part of the president's Plan de Gobierno, and the program has provided leadership and a public face to the government's efforts to reform. Broadly speaking, these two programs reflect the president's goal to change the pattern of sluggish economic growth and encourage foreign investment.

In terms of specific reform efforts, the Technical Secretariat of the Presidency, an organ of the executive branch that reports directly to the President, coordinates and leads commercial law

reforms. To give these interests practical capacity, the Technical Secretariat created the Commission for the Study of Reforms to the Commercial Code, along with other reform-specific commissions. All of the groups are inter-agency partnerships, and in many cases include representatives from the private sector. Their goal is to craft and help implement solutions to issues involving business processes, including business registration.

Other government agencies and organizations contributed to the momentum for registry reform. In 2002-03, in coordination with the Technical Secretariat and with a loan and support from the Inter-American Development Bank, the National Commission of Small and Medium Enterprises (CONAMYPE), a government agency, initiated a study of the business registration process. This study painted an unflattering portrait of the business registration process. According to CONAMYPE, this report served as a further catalyst to the government to seek the necessary changes. This effort at creating political will was, and continues to be, seconded by organizations such as FUNDES, an internationally-funded organization with operations to assist small and medium enterprises in 11 Latin American countries, and the Association for Medium and Small Salvadoran Enterprises. This international and domestic political will for reform sparked the implementation of such changes.

Approach

The first set of reforms began in June 2003 when the then-Executive Director of the National Registry Center, Félix Garrid Safie, selected Manuel del Valle as Director of the Commercial Registry. Mr. Safie brought ideas and energy for the reform effort, and gave Mr. del Valle a broad mandate to improve the registry's operations. The reforms, as described herein and continuing up to the time of the 2006 Doing Business report, were undertaken within the registry itself, with limited outside assistance. The first part of the process was a "house-cleaning" of employees who were not performing up to standards. The second set of reform, focusing on more systematic changes, occurred as a result of inter-ministerial cooperation, led by the El Salvador Eficiente program, and using the aforementioned Commission on the Study of Reforms of the Commercial Code as a vehicle. It is important to note that neither of these reforms required legal or regulatory changes; both were strictly procedural, allowing for more rapid implementation. El Salvador used a

three-tiered process hierarchy, which is a model to be applied in other reform efforts in the country:

1. Complete reforms requiring only procedural changes (steps covered in the note)
2. Complete reforms requiring modifications or amendments to existing laws
3. Complete reforms requiring new laws.

Local Ownership of Certification Reform

In March 2004 the Executive Director of the National Registry Center initiated a separate effort to have the Commercial Registry achieve "ISO-9000 certification" from the International Standards Organization. This certification requires a series of documented standards representing a basic model for quality assurance in client service. In its most basic form it requires the agency to:

1. Have documented procedures for performing the work
2. Work according to the procedures
3. Retain records of the activities for compliance and audit needs
4. Compare what was planned and achieved and use the information regarding discrepancies to enhance the process.

This effort created rules of customer service, instructions for each role, standards of quality, methods of measuring performance, and steps to improve processes. While outside experts were involved to a limited degree, the employees of the registry developed the ISO manual, giving them an important sense of ownership of the process, and further changing the culture of the registry.

At the end of this process, which took approximately one year, the resulting manual provides a narrative and schematic map to guide users through the processes within the registry. In addition, it explains each employee's role and place on individual teams, including steps for correcting procedural issues and methods of ensuring that they were not repeated. The manual is accessible to all employees. The culture of the registry encourages independent thinking so that an employee may question the manual if necessary. In this regard, the registry now has a process of amending its rules that result in published administrative acts, available on the registry's website.

Furthermore, as part of the ISO process, the physical setup of the registry was changed to make it more customer service-oriented and process-friendly. In addition, the registry established a

clear process of receiving and incorporating client feedback. To support continual renewal, the new ISO process includes an annual outside review to ensure continued compliance, making the registry better equipped to meet any new developments. As a result, the registry monitors itself and has outside scrutiny to ensure long-term effectiveness. As a source of pride and an incentive for continued efforts, El Salvador's Commercial Registry was the first registry in Latin America to be ISO certified.

Cross-Agency Cooperation

As cited in numerous interviews and the 2006 *Doing Business* report, the registry made significant strides in reducing the time and cost involved in starting a business. However, additional reforms have improved the process further. Most significantly, in January 2006, President Saca announced, as part of the El Salvador Eficiente process, the creation of a one-stop window at the Commercial Registry where eight of the separate business start-up processes, previously requiring trips to different ministry offices, could now all be handled. These processes are: receiving the corporate seal, initial balance sheet, initial business license, NIT (corporate tax identification), IVA (value added tax registration), official invoicing papers, NIP (social security registration), and Ministry of Labor registration. To facilitate this change, each of the agencies involved located a staff member at the registry with authority to complete these steps. The aforementioned Commission on the Study of Reforms of the Commercial Code recommended the creation of the one-stop window.

It should be noted that two other government agencies—National Investment Office within the Ministry of Economy and CONAMYPE—already provided a similar one-stop window service in assisting foreign investors and small and medium enterprises, respectively. Both must still submit the majority of these documents to the Commercial Registry for approval. Their experience helped guide the Commercial Registry's one-stop window reform.

Cutting other Red Tape

A final set of national reforms has improved the business registration process: the elimination of procedures that are not expressly required by law or regulation. For example, certain ministries required that photocopies of documents had to have a certain size of margins with additional notarizations to ensure that the copy was accurate; however, very few photocopy businesses in San

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About BizCLIR:

BizCLIR, or the Business Climate Legal & Institutional Reform Project, is a multi-year initiative of the United States Agency for International Development with the goal of improving the efficiency and impact of assistance programs intended to help developing countries improve their business enabling environments. This series, Best Practices for the Business Environment, represents one of many knowledge management components of the BizCLIR project. The goal of the series is to highlight the known best practices, case studies, lessons learned, and in some cases worst practices, so that the lessons can benefit other practitioners in the field. All issues are available at www.bizclir.com.

Salvador could provide this service. Because this and other similar requirements had no legal basis, they were eliminated. As a result, the business start-up process is much more customer friendly.

Last, the process of completing the local tax registration at the municipality level remains an uncertain one. Across and even within each municipality, requirements to be registered are inconsistent. However, FUNDAPYME is slowly reforming these offices, having to this point successfully lowered the costs, time, and procedures in two of 14 municipalities. Reform of this process is of significant importance, as it often requires the applicant to travel between his or her home municipality and San Salvador, and if not done correctly, may require multiple trips, thus imposing more cost for entrepreneurs.

Results

These reforms have significantly reduced the time and cost of starting a business. Customer satisfaction has significantly improved as well. Typical lessons learned, such as dealing with political trade-offs and opposition, assigning accountability, or creating a new institution, have limited applicability in this case. All sectors supported the reforms; the Commercial Registry took on full responsibility for seeing through the initial reforms, with an inter-agency committee providing support for later reforms; and the closest effort to "institution building" was improving the physical set-up of the facilities and establishing the one-stop window. Strong leadership—first from the registry and then from the Technical Secretariat and the heads of the leadership—was key to implementing the reforms.

Moreover, none of the major actions undertaken required legal or regulatory changes, and the international community was not directly involved. It was a simple case of well-managed process reengineering. Perhaps this is the key lesson to take from this reform effort: it is not always necessary to invest significant resources and time to improve bureaucratic processes; looking to straightforward, inexpensive, non-controversial changes that do not require the involvement of the legislative process will often bring about significant change. Furthermore, bringing those that will be most affected by the reforms into the process (e.g., creating local and direct ownership of the reforms as occurred with the staff of the

Commercial Registry) will create a more receptive atmosphere for change. Enlisting the cooperation and seeking the input of all involved agencies can ensure proper buy-in and support for the reforms

Conclusions

This approach has created momentum for further reform. Almost all interviewees expressed a desire for more reform, often asking rhetorically, "Why does it still take five days to register?," even though the current reforms have only been in place for a short period. From this point, however, such additional changes will likely require legal and regulatory reforms (such as changing the documents used to complete the process or the notarization requirements) and that will likely bring political controversy. Nonetheless, all stakeholders seem galvanized to continue on the reform path and are developing creative solutions to ensure that the process continues forward.